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ACTION EAP-00

INFO	LOG-00	NP-00	AGRE-00	AID-00	AIT-03	CEA-01	CIAE-00
	COME-00	CTME-00	DINT-00	DODE-00	ITCE-00	SRPP-00	EB-00
	EXME-00	EUR-01	E-00	UTED-00	VC-01	FRB-00	H-01
	TEDE-00	INR-00	ITC-01	LAB-01	L-00	MOFM-04	MOF-03
	AC-01	NSAE-00	NSCE-00	OES-01	OMB-01	OPIC-01	PM-00
	PRS-00	ACE-00	SP-00	SSO-00	SS-00	STR-00	TRSE-00
	USIE-00	EPAE-00	SNIS-00	NISC-00	PMB-00	DRL-02	G-00
	NFAT-00	SAS-00	/022W				

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FM AMEMBASSY HANOI  
TO SECSTATE WASHDC PRIORITY 9683  
USDOE WASHINGTON DC PRIORITY  
INFO ASEAN COLLECTIVE  
AMEMBASSY MOSCOW  
AMCONSUL HO CHI MINH CITY

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SIPDIS

STATE FOR EAP/BCLTV, EB/ESC  
USDOE FOR IA-42/J BRODMAN

E.O. 12958: N/A

TAGS: [ENRG](#) [ECIN](#) [EPET](#) [VM](#) [APEC](#)

SUBJECT: VIETNAM: PREPARING FOR APEC ENERGY MINISTERS MEETING

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REF: A) HANOI 471; B) STATE 71973

1. ACCORDING TO THE MINISTRY OF INDUSTRY (MOI), MINISTER DANG VU CHU WILL LEAD VIETNAM'S DELEGATION TO THE MAY 10-12 APEC ENERGY MINISTERS CONFERENCE IN SAN DIEGO. (NOTE: THE GOVERNMENT OF VIETNAM DOES NOT HAVE A MINISTRY OF ENERGY. CERTAIN FUNCTIONS ARE DELEGATED TO OTHER MINISTRIES OR TO STATE-OWNED CORPORATIONS, BUT EMBASSY BELIEVES THE INDUSTRY MINISTER IS THE MOST APPROPRIATE ATTENDEE. END NOTE.) THIS MESSAGE PROVIDES REQUESTED INFORMATION ON VIETNAM'S ENERGY AND ENVIRONMENT SECTORS AS WELL AS PENDING COMMERCIAL ADVOCACY ISSUES.

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ENERGY  
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2. CRUDE OIL IS VIETNAM'S MOST IMPORTANT EXPORT COMMODITY, GENERATING ROUGHLY ONE-FIFTH OF THE COUNTRY'S EXPORT EARNINGS. CURRENT PRODUCTION IS SLIGHTLY LESS THAN 300,000 BARRELS PER DAY, ALL FROM OFFSHORE FIELDS. THE COUNTRY HAS RECOVERABLE GAS RESERVES OF 60-80 TRILLION CUBIC FEET, PRIMARILY IN THE NAM CON SON BASIN SOUTHEAST OF HO CHI MINH CITY, BUT THESE ARE LARGELY UNEXPLOITED DUE TO A LACK OF INFRASTRUCTURE. VIETNAM HAS LARGE RESERVES OF ANTHRACITE COAL, WHICH ALSO IS A MAJOR EXPORT, BUT THE INDUSTRY SUFFERS FROM OVER-CAPACITY, OUTDATED TECHNOLOGY, AND EXCESS LABOR.

3. NUMEROUS U.S. AND FOREIGN ENERGY COMPANIES HAVE  
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INVESTED CONSIDERABLE CAPITAL IN EXPLORATION AND DEVELOPMENT, BUT MANY HAVE BECOME FRUSTRATED WITH BUREAUCRATIC AND REGULATORY DELAYS AND HAVE WITHDRAWN FROM THEIR PROJECTS. WITH THE EXCEPTION OF ONE JOINT VENTURE (VIETSOVPETRO) WITH THE RUSSIAN COMPANY ZARUBEZHNEFT, FOREIGN COMPANY INVOLVEMENT IN UPSTREAM OIL AND GAS PROJECTS IS CONDUCTED THROUGH PRODUCTION-SHARING CONTRACTS WITH PETROVIETNAM, THE STATE-OWNED ENERGY COMPANY.

4. VIETNAM CURRENTLY DOES NOT HAVE A REFINERY, SO ALL CRUDE OIL PRODUCTION IS EXPORTED. THE GOVERNMENT HAS APPROVED A USD 1.3 BILLION JOINT VENTURE PROJECT WITH RUSSIA TO CONSTRUCT A REFINERY AND ASSOCIATED FACILITIES AT DUNG QUAT IN CENTRAL VIETNAM, BUT THUS FAR HAS FAILED TO ATTRACT SUFFICIENT FUNDING. MANY FOREIGN EXPERTS BELIEVE THE PROJECT IS NOT ECONOMICALLY FEASIBLE.

5. ELECTRICITY OF VIETNAM (EVN), UNDER THE

SUPERVISION OF MOI, IS RESPONSIBLE FOR POWER GENERATION, TRANSMISSION, AND DISTRIBUTION. HYDROPOWER ACCOUNTS FOR MORE THAN SIXTY PERCENT OF THE ENERGY SUPPLY, WITH THE REMAINDER GENERATED FROM THERMAL (OIL AND COAL-FUELED) PLANTS. THE GVN HAS DISCUSSED THE POSSIBILITY OF CONSTRUCTING A NUCLEAR POWER PLANT.

16. ACCORDING TO THE WORLD BANK, IN THE NEXT FEW YEARS VIETNAM WILL FACE FOUR MAJOR CHALLENGES IN THE ENERGY SECTOR. FIRST, DEMAND FOR ELECTRICITY WILL INCREASE  
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13-15 PERCENT ANNUALLY OVER THE NEXT TEN YEARS, REQUIRING THE ADDITION OF 600-800 MEGAWATTS OF CAPACITY TO THE POWER GRID EACH YEAR. SECOND, LIMITED CAPITAL RESOURCES WILL NECESSITATE CAREFUL PLANNING AND PRIORITIZATION OF PROJECTS. THIRD, VIETNAM WILL NEED TO INVEST 5.3-5.5 PERCENT OF GDP, OR TWICE THE LEVEL OF ITS SOUTHEAST ASIAN NEIGHBORS, IN ESSENTIAL ENERGY INFRASTRUCTURE. TWO-THIRDS OF THIS WILL HAVE TO BE FINANCED WITH OFFICIAL DEVELOPMENT ASSISTANCE OR FOREIGN DIRECT INVESTMENT. FOURTH, TO ATTRACT THIS AMOUNT OF FDI THE GVN WILL HAVE TO IMPROVE SIGNIFICANTLY ITS INVESTMENT CLIMATE AND REGULATORY FRAMEWORK. IT MAY NEED TO CREATE A NATIONAL ENERGY AND COORDINATIVE AGENCY AND SEPARATE THE POLICY AND COMMERCIAL FUNCTIONS OF BOTH EVN AND PETROVIETNAM (PVN). THE GVN ALSO WILL NEED TO ACCEPT AND STREAMLINE THE BOT APPROVAL PROCESS.

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ENVIRONMENT  
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17. SINCE 1950, THE POPULATION OF VIETNAM HAS TRIPLED. VIETNAM IS NOW ONE OF THE MOST DENSELY POPULATED COUNTRIES IN THE WORLD. THE POPULATION IS PREDOMINANTLY RURAL POOR, DEPENDENT ON THE NATURAL RESOURCES OF LAND, FOREST, AND WATER FOR SUSTENANCE. TO SATISFY BASIC NEEDS, INDIVIDUALS AND WHOLE COMMUNITIES HAVE ENCROACHED ON FRAGILE ECOSYSTEMS AND DEGRADED NATURAL RESOURCES. THE MOST VISIBILE MANIFESTATION OF THIS IS THE LOSS OF PRIMARY FOREST COVER, WHICH IN THE LAST HALF-CENTURY HAS GONE FROM OVER 40 PERCENT TO ABOUT 10 PERCENT.

18. SINCE ABOUT 1960 THERE HAVE BEEN TWO SIMULTANEOUS TRENDS OF INTERNAL MIGRATION: FROM CONGESTED TO LESS DENSELY POPULATED AREAS -- AS PEOPLE SEEK LAND -- AND FROM RURAL TO URBAN AREAS -- AS THEY SEEK WORK. THIS MIGRATION HAS EXPANDED AND INTENSIFIED THE PATTERN OF ENVIRONMENTAL DEGRADATION. IT HAS ALSO INTENSIFIED URBAN ENVIRONMENTAL PROBLEMS, ESPECIALLY IN CLEAN AIR AND WATER PROBLEMS, AND WASTE DISPOSAL DIFFICULTIES. ALTHOUGH VIETNAM IS NOW ONE OF THE LOWEST CONSUMERS OF ENERGY PER CAPITA IN ASIA, THE NEXT DECADE WILL SEE A DRAMATIC GROWTH IN ENERGY CONSUMPTION AND PRODUCTION FROM FOSSIL FUELS AND HYDROPOWER. THIS WILL INEVITABLY PRODUCE PROFOUND ENVIRONMENTAL IMPACTS. THE URBAN AREAS, MEANWHILE, WILL ABSORB MORE THAN ONE-THIRD OF THE POPULATION AT CURRENT TRENDS. WHILE POPULATION GROWTH WILL LEVEL OFF AROUND 2050, THE ABSOLUTE INCREASE IN POPULATION AND INTERNAL MIGRATION WILL CONTINUE TO POSE MAJOR ENVIRONMENTAL CHALLENGES.

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COMMERCIAL ADVOCACY  
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19. THERE ARE TWO PENDING POWER PROJECTS BY U.S. COMPANIES. BOTH HAVE ENDURED LONG DELAYS IN THE APPROVAL PROCESS, AND MINISTER CHU SHOULD BE URGED TO EXPEDITE THEM. FIRST, ENRON HAS A PROPOSAL FOR A 475 MW BUILD-OPERATE-TRANSFER (BOT) POWER PROJECT IN SOC TRANG PROVINCE:

-- ENRON SUBMITTED THE FEASIBILITY STUDY TO THE GVN IN 1999.

-- ENRON HAS CONCLUDED TWO ROUNDS OF DISCUSSIONS WITH THE MINISTRY OF INDUSTRY ON ITS BOT AGREEMENT, AS WELL AS ONE ROUND OF DISCUSSIONS WITH ELECTRICITY VIETNAM (EVN) ON THE ELECTRICITY TARIFF.

-- THE U.S. TRADE DEVELOPMENT AGENCY (TDA) HAS PROVIDED A USD 700,000 GRANT TO ASSIST MOI IN PREPARING THE LEGAL FRAMEWORK FOR THIS PROJECT.

(NOTE: UNDER THE GVN'S MOST RECENT POWER PLAN, THE ENRON BOT PROJECT WILL NOT BEGIN OPERATIONS UNTIL 2006, DUE TO UNAVAILABILITY OF GAS FUEL.)

110. THE U.S COMPANY ORMAT HAS APPLIED FOR APPROVAL OF ITS 50 MW BOT GEOTHERMAL POWER PLANT IN CENTRAL VIETNAM:

-- IN 1998 MOI GRANTED EXPLORATION LICENSES FOR SIX GEOTHERMAL AREAS.

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-- IN 1999 MOI APPROVED THE PRE-FEASIBILITY STUDY, AND EVN AGREED TO THE POWER TARIFF SUBJECT TO A STUDY FUNDED BY TDA.

-- TDA HAS BEEN WORKING WITH MOI ON AN AMENDMENT TO THE SIGNED GRANT AGREEMENT TO MEET MOI'S REQUEST FOR TECHNICAL ASSISTANCE.

-- ORMAT HAS APPLIED FOR AN EXTENSION OF ITS EXPLORATION LICENSE FROM MOI THAT EXPIRED IN DECEMBER.

111. MORE GENERALLY, THE LONG-PENDING BP-AMOCO NEGOTIATIONS ON GAS SALES AND A PIPELINE FROM THE OFFSHORE FIELDS TO VUNG TAU MUST BE COMPLETED. THIS WILL SET A PRECEDENT FOR FUTURE GAS SALES AND PIPELINE NEGOTIATIONS FOR UNOCAL AND OTHER U.S. ENERGY AND POWER COMPANIES WHICH MAY HAVE INTERESTS IN GAS EXPLORATION. FAILURE TO DELIVER GAS FROM THE NAM CON SON FIELD IS DISRUPTING PLANS FOR EXISTING AND NEW POWER PLANTS IN THE VUNG TAU AREA.

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BIO NOTE  
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112. DANG VU CHU WAS APPOINTED MINISTER OF INDUSTRY IN OCTOBER 1995, FOLLOWING THE MERGER OF THE MINISTRIES OF LIGHT INDUSTRY, HEAVY INDUSTRY, AND ENERGY. FROM 1990 TO 1995 HE SERVED AS MINISTER OF LIGHT INDUSTRY. HE WAS BORN IN 1940 AND EDUCATED IN VIETNAM (BACHELOR'S DEGREE) AND CZECHOSLOVAKIA (DOCTORATE).

HARTER

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